POLICY BRIEF

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Did Pittsburgh Give The Store Away?

The decision by the May Company-- the department store giant-- to eliminate 1,200 administrative jobs at its Kaufmann's division in Pittsburgh came as a shock to both employees and local officials. It is the biggest single job reduction in the City so far this year.

In reacting to the decision, several public officials have made statements to the effect that the May Company showed a lack of gratitude to the City in view of the financing help they received in establishing the Lord and Taylor store. For example, the director of the Urban Redevelopment Authority stated, "[the job losses are] very upsetting, especially when we offered them all these financial resources." A state official said, "they have not put forth justification for them to relocate." The editorial page of the Post Gazette wrote that "given the generosity of this city toward [May]…we think they owe us."

However, publicly available information about how the Lord and Taylor deal was structured indicates that the May Company did not receive any public largesse. In October 2000, a local newspaper article described the financial arrangements in detail. As usual for URA deals it was a very complicated transaction. First, the URA acquired ownership of two garages that were being leased by the Parking Authority to Kaufmann's. Under a long-term arrangement, Kaufmann's (a division of the May Company) was paying the Parking Authority in the neighborhood of $172,000 per year. There were about 20 years left on that lease. The URA arranged to take possession of the lease rights and resold them as a 50-year lease to a Chicago firm for $28 million. The investment value of the remaining 20 years on the Kaufmann's (i.e. the May Company's) lease is estimated to be $24 million. Presumably, the URA handled the sale because of tax considerations. That part of the deal has not yet been fully explained.

What did the May Company get in return for giving up the 20-year income stream from the garage leases which had a market value of about $24 million? According to published accounts they received $12.3 million in a lump sum payment and a "soft" loan for $11.75 million. The principal provision of the May Company's "soft" loan is that they will pay the URA two percent of annual sales revenue in excess of $35 million. That makes the loan a virtual gift because for the store to reach $35 million, sales would need to hit $259 per square foot, fully $37 higher than their average store produces, a very unlikely event indeed.

In effect, the URA was basically lending back to the May Company its own money produced by the lease sale. Therefore, the loan terms had to be structured in such a way that the loan would not be repaid to the URA unless the store was wildly successful. And, in that case, the URA's loan payment receipts would represent a reward for putting the deal together in the first place. A reasonable arrangement for both parties. Nonetheless, all the financial risk in the Lord and Taylor's development is being borne by the May Company since it is actually May Company assets that were invested in the store.

The May Company expects to save $60 million annually from moving or eliminating jobs in Pittsburgh and Portland, OR. That is a business decision, and one that was favorably received in the investment community. The May Company was not a recipient of government largesse and it was inappropriate for elected officials to act as though the company was obligated to treat the move as anything but a business decision.

The recriminations leveled at the May Company by local officials will be noticed by other firms in and out of the region. It was an unfortunate gesture emanating from a community that desperately needs to be seen as more business friendly.

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